

(2) Require the documented evaluation of the capability and responsibility of individuals exercising delegated authorities;

(3) Provide for reporting of actions taken under delegated authority to the delegating bank;

(4) Provide procedures for periodic review and enforcement;

(5) Provide for withdrawal of authority where appropriate; and

(6) Where redelegation from the association's board to association employees is authorized, require similar control measures to be used.

[55 FR 24883, June 19, 1990]

§ 614.4110 Transfer of direct lending authority to Federal land bank associations and agricultural credit associations.

(a) Upon the transfer of authority to make and participate in long-term agricultural real estate mortgage loans by a Farm Credit Bank or agricultural credit bank to a Federal land bank association pursuant to section 7.6(a) of the Act and subpart E of part 611 of these regulations, the association shall be designated a Federal land credit association and shall have the powers set forth in § 614.4030.

(b) Upon the transfer of the authority to make and participate in long-term real estate loans by a Farm Credit Bank or agricultural credit bank to an agricultural credit association pursuant to section 7.6(d) of the Act, the association shall have all of the powers set forth in § 614.4050.

(c) An association to which such long-term lending authority is to be transferred shall have in place, prior to the transfer, policies and procedures guiding the extension and administration of credit within its territory.

[55 FR 24883, June 19, 1990]

§ 614.4120 Policies governing extensions of credit to direct lender associations.

(a) The board of each Farm Credit Bank and each agricultural credit bank shall adopt policies and procedures governing the making of direct loans to and the discounting of loans for direct lender associations and other financing institutions. The policies and procedures may provide for servicing

actions, including limiting funding for loans of certain types or amounts, to be taken pursuant to the general financing agreement when associations do not demonstrate the ability to extend and administer credit soundly or pose excessive risk to the bank. The policies shall require that the amount of credit extended at all times be consistent with sound financial and credit practices. The policies shall require an evaluation of the creditworthiness of the association on the basis of the loan underwriting policies and standards adopted pursuant to § 614.4150, and may permit lending to such institutions on an unsecured basis only if the overall condition of the institution warrants.

(b) The policies and procedures required by paragraph (a) of this section, shall require the execution of a financing agreement between the bank and the borrowing institution that meets the requirements of § 614.4130(b).

[55 FR 24883, June 19, 1990, as amended at 62 FR 51014, Sept. 30, 1997]

§ 614.4130 Direct loans to associations.

(a) *Direct loan limitation.* The total credit extended to a direct lender association under a direct loan and by discounting loans may not at any time exceed the total of that portion of the total loans, including participations purchased from other lenders, considered performing loans in accordance with the percentage as classified in the bank's most recent credit review, or such percentages as may equitably represent the same percentages on a current basis, such alternate procedure to be subject to concurrence of the Farm Credit Administration, the total of investments under Commodity Credit Corporation programs, notes insured or guaranteed by Farmers Home Administration, and in farmers' notes to co-operatives and dealers, etc.; and capital and surplus less the total of the amount invested in the bank and any portion of capital and surplus invested in loans to members, and any estimated losses not protected by reserves.

(b) *General Financing Agreement.* Farm Credit Banks and agricultural credit banks shall require execution of a General Financing Agreement, in form approved by the Farm Credit Administration, as a condition to making

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direct loans to production credit associations and other financing institutions. Direct loans and advances to other financing institutions will be evidenced by a separate promissory note. Direct loans and advances to production credit associations may be evidenced by a separate promissory note or as provided in the General Financing Agreement.

(c) Securities and other obligations pledged to the bank by an association pursuant to a general pledge and direct loan agreement, shall be held by the bank as collateral for direct loans made by the bank against such securities, as general collateral to secure all paper discounted for the association, and as security for all other obligations of the association to the bank. In the event it is necessary for a bank to realize on such collateral the proceeds therefrom will be applied in that order.

[37 FR 11424, June 7, 1972. Redesignated and amended at 55 FR 24880 and 24883, June 19, 1990; 58 FR 48791, Sept. 20, 1993]

Subpart D—General Loan Policies for Banks and Associations

§ 614.4150 Lending policies and loan underwriting standards.

Under the policies of its board, each institution shall adopt written standards for prudent lending and shall issue written policies, operating procedures, and control mechanisms that reflect prudent credit practices and comply with all applicable laws and regulations. Written policies and procedures shall, at a minimum, prescribe:

(a) The minimum supporting credit and financial information, frequency for collection of information, and verification of information required in relation to loan size, complexity and risk exposure

(b) The procedures to be followed in credit analysis

(c) The minimum standards for loan disbursement, servicing and collections

(d) Requirements for collateral and methods for its administration

(e) Loan approval delegations and requirements for reporting to the board

(f) Loan pricing practices

(g) Loan underwriting standards that include measurable standards:

(1) For determining that an applicant has the operational, financial, and management resources necessary to repay the debt from cashflow

(2) That are appropriate for each loan program and the institution's risk-bearing ability; and

(3) That consider the nature and type of credit risk, amount of the loan, and enterprises being financed

(h) Requirements that loan terms and conditions are appropriate for the loan; and

(i) Such other requirements as are necessary for the professional conduct of a lending organization, including documentation for each loan transaction of compliance with the loan underwriting standards or the compensating factors or extenuating circumstances that establish repayment of the loan notwithstanding the failure to meet any one or more loan underwriting standard.

[62 FR 51014, Sept. 30, 1997]

§ 614.4155 Interest rates.

Loans made by each bank and direct lender association shall bear interest at a rate or rates as may be determined by the institution board. The board shall set interest rates or approve individual interest rate changes either on a case-by-case basis or pursuant to an interest rate plan within which management may establish rates. Any interest rate plan shall set loan-pricing policies and objectives, provide guidance regarding the circumstances under which management may adjust rates, and provide the upper and lower limits on management authority. Any interest rate plan adopted shall be reviewed on a continuing basis by the board, as well as in conjunction with its review and approval of the institution's operational and strategic business plan.

[62 FR 66818, Dec. 29, 1997]

EFFECTIVE DATE NOTE: At 62 FR 66818, Dec. 22, 1997, § 614.4280 of subpart G was redesignated as § 614.4155 of subpart D and revised, effective upon the expiration of 30 days after publication in the FEDERAL REGISTER during which either or both houses of Congress are in session. For the convenience of the user, the superseded text is set forth as follows: